

December 2013



## **Basis for Conclusions: APES GN 20 Scope and Extent of Work for Valuation Services**

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*Prepared by the Technical Staff of the Accounting Professional & Ethical Standards Board*

## **BASIS FOR CONCLUSIONS:**

### **APES GN 20 Scope and Extent of Work for Valuation Services**

This basis for conclusions has been prepared by Technical Staff of Accounting Professional & Ethical Standards Board Limited (“APESB”). It has been reviewed and approved by the Board of Directors of APESB and is provided for the benefit of stakeholders so they may gain an understanding of the background to the development of APES GN 20 *Scope and Extent of Work for Valuation Services* (the Guidance Note).

The basis for conclusions **does not** form part of APES GN 20 and is not a substitute for reading the Guidance Note.

### **Background**

APESB has issued APES GN 20 to provide guidance to assist Members on the application of APES 225 Valuation Services in determining the scope and extent of work that, depending on the particular circumstances, may be appropriate for the three types of Valuation Service defined in section 2 of APES 225.

APES GN 20 includes guidance in respect of:

- Scope and extent of work for Valuation Services; and
- Selecting the type of Valuation Service.

The Guidance Note also includes an appendix which provides 4 illustrative examples to assist Members in determining the scope and extent of work for a Valuation Service.

APESB issued an exposure draft of the proposed Guidance Note (ED 04/12 APES GN 20 *Scope and Extent of Work for Valuation Services*) in September 2012 with a comment deadline of 30 November 2012. APESB received four submissions from the professional accounting bodies and major accounting firms. In response to the comments received APESB made a number of changes to APES GN 20.

The following summarises the significant issues raised by respondents and other stakeholders during the development of the Guidance Note, and how APESB addressed them.

### **References to APES 225, structure and drafting style**

Some respondents noted that, as the Guidance Note is intended to assist in the application of APES 225 Valuation Services (APES 225), whether it is necessary to reiterate the content of APES 225 such as the definitions, fundamental responsibilities, reporting and documentation obligations. The respondents were of the view that as these professional obligations were already stated in APES 225 it was not useful to restate them in the Guidance Note. APESB considered this and agreed with the respondents’ comments and made appropriate amendments including the removal from the Guidance Note of the definitions in APES 225 and making a note in section 2 that the definitions are consistent with APES 225.

Some respondents expressed concerns that the Guidance Note was drafted in a manner that could lead Members and other stakeholders to interpret it as a professional standard rather than in the manner that APESB intends, namely as guidance. The respondents were of the view that the Guidance Note's format and presentation is almost identical to the Standards issued by APESB and that this may lead to confusion among Members and other stakeholders. A respondent also noted that it would be useful if APESB made a clear statement that the Guidance Note does not prescribe or create new professional requirements. APESB considered these issues and revised the scope and application of the Guidance Note to address the respondents' comments and made an explicit statement in paragraph 1.1 that the Guidance Note does not prescribe or create any mandatory requirements.

Some respondents raised the issue whether the use of "should" in the Guidance Note could be interpreted as establishing a standard of professional practice as it is also a word used in guidance paragraphs of APESB standards. It should be noted that the use of "should" to denote guidance is a well established practice among standards setters for the accounting profession locally as well as internationally. APESB has determined to include a reference in the Guidance Note to the *Due Process and working procedures for the development and review of APESB pronouncements* to ensure that Members and other users understand the drafting conventions, in particular the difference between the use of "shall" (requirement) and "should" (guidance).

### **Public Interest**

Some stakeholders were of the view that the Guidance Note is not in the public interest as it could be considered to be of a technical nature rather than addressing professional and ethical matters. These stakeholders based this view on the inclusion in the Guidance Note of suggested areas of review (external environment, valuation context, etc.) and on the continuum of extent of review suggested for each of the three types of Valuation Service. Another stakeholder was of the view that the issue of the Guidance Note is not within APESB's mandate and that the Guidance Note could be misinterpreted as a Standard by a Court, due to it being issued by APESB.

APESB considered these matters and made amendments to align the Guidance Note more closely with the requirements of the scope and extent of work for Valuation Services in APES 225. The Board determined that it was within APESB's mandate to issue guidance on professional and ethical matters in respect of non-assurance services such as Valuation Services, when it is in the public interest and where it provides useful guidance for Members including in discussions with their Clients or Employers.

APESB determined that the Guidance Note provides a basis for assisting in planning a Valuation Service and determining the type of Valuation Service which is appropriate in the circumstances. Furthermore, the Guidance Note was revised to make clearer that matters in determining the scope and extent of work are subject to the consideration and professional judgement of the Member. It should be noted that the Guidance Note assists Members in meeting one of the fundamental professional and ethical obligations of *professional competence and due care* by providing guidance on how to differentiate between the three types of Valuation Service.

### **Determining the scope and extent of work for Valuation Services**

Some stakeholders noted that the tables in the Guidance Note which provided guidance on the extent of work to be performed and evidence to be obtained in respect of the three types of Valuation Service, may not be appropriate in all circumstances. These stakeholders were also of the view that the Guidance Note needed to be specifically linked to the professional obligations stated in APES 225 to limit its interpretation and to increase its usefulness.

APESB considered these issues and introduced additional flexibility in respect the extent of work that might be performed and evidence that might be obtained for the three types of Valuation Service to address the respondents' comments. In addition, the Guidance Note now explicitly refers in paragraph 3.1 to the specific obligation in APES 225, which requires Members to "gather sufficient and appropriate evidence by such means as inspection, inquiry, computation and analysis to provide reasonable grounds that the Valuation Report and the conclusions therein are properly supported".

### **Selecting the type of Valuation Service**

Some stakeholders were of the view that the Guidance Note should be more explicit in informing Members that it is the Client's responsibility to select the type of Valuation Service and that it should provide more guidance on circumstances that might influence the suitability of a particular type of Valuation Service. APESB considered these matters and made appropriate amendments to the Guidance Note to specifically state that the Client or Employer is responsible for determining the type of Valuation Service to be undertaken in the circumstances. APESB has also incorporated additional guidance on matters that the Member should consider discussing with the Client or Employer at the planning stage of the Valuation Service.

### **Appendix with 4 Illustrative Examples**

Some stakeholders noted it would be useful to have illustrative examples to assist Members understand the subject matter and how to use the Guidance Note in practice. Accordingly, 4 illustrative examples have been included to provide guidance on how to apply the Guidance Note in practical situations. The examples are case based and cover the topics of: performing a Valuation Engagement without access to the company; the relationship between Valuation Conclusions in a Limited Scope Valuation Engagement and in a Valuation Engagement; choosing between different types of Valuation Engagement; and consideration of the extent of evidence.